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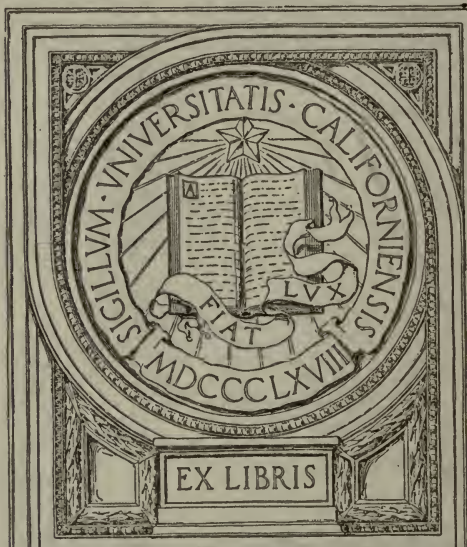

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ADDRESS of MR.
HERBERT
HOOVER
before the
SAN FRANCISCO
COMMERCIAL
CLUB
on
The World
Economic Situation

UNIV. OF CALIFORNIA

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The World Economic Situation

ADDRESS OF

HERBERT HOOVER

BEFORE THE

SAN FRANCISCO COMMERCIAL CLUB

OCTOBER 9, 1919

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Introductory remarks of MR. FREDERICK WHITTON *president of* SAN FRANCISCO COMMERCIAL CLUB

WE ARE meeting today with a man who has been in the war from the beginning. At the first alarm his service began, and not for nearly a year after the armistice was he able to throw off, even briefly, the heavy burden of his world duties. There is no other man, certainly no other American, of whom that can be said. He stands alone in a world of men.

There is something inevitably trifling and tinkling in the effort among the few of us here today to put into words the thoughts that are in our minds toward our guest, for we are conscious that he is known and loved by millions. In uncounted languages the prayers of little children go up for him as greater and more dear than any army chief or king or saint. And yet, unavailing and ineffective as it is, we must express to Mr. Hoover something of the thought that we, who live in America, hold for him. (Applause.)

We rejoice in him as a Californian. We exult in him as a great American—among the greatest. But together with that exultation and that rejoicing there is a deeper and a greater feeling—a recognition, may I say, solemn and deeply moving, that in him we have one of history's great figures, one of those rare and radiant few whose feet are upon the heights, and whose names are written among the stars. For it has been his work to ennoble humanity, and to give to human life something of that spirit and essence which links it with the divine. (Applause.)

Only a great poet can phrase Herbert Hoover. Kipling must have had in mind such a man as he when he said:

"If you can dream and not make dreams your master;
If you can think and not make thoughts your aim;
If you can meet with triumph and disaster,
And treat those two imposters just the same;
If you can talk with crowds, but keep your virtue,
Or walk with kings nor lose the common touch;
If neither foes nor loving friends can hurt you;
If all men count with you, but none too much;
If you can fill the unforgiving minute,
With sixty seconds' worth of distance run,
Yours is the earth and everything that's in it,
And which is more, you'll be a man."

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Address of Mr. Herbert Hoover

Mr. Chairman and Gentlemen:

I would be a poor mind if I were not greatly embarrassed at this moment. To merit the title of a great Californian would be merit beyond that that could be conferred in any community in this world, because there is no community of the intelligence and character of this State of California. After what we have heard, it is perhaps a little difficult to come down to the subject that I have chosen to worry you with for a moment today. It is not the League of Nations. (Laughter.)

It has been my duty, especially during the last ten months, to make a systematic study of certain social and economic currents throughout the world, in order that those gentlemen engaged in an endeavor to make peace could be as well advised as possible. I have retained some of the notes made on those occasions, and I have thrown a few of them together with the hope that perhaps it might be of some assistance to you in formulating your own minds about certain problems with which this country is confronted.

In entering upon a discussion of some issues in the world's economic situation I wish to make an immediate differentiation in two widely separated economic phe-

nomena today. That lies in the difference of the economic situation, of the agricultural populations of the world, as distinguished from the industrial populations —and in the industrial population, for lack of a better term, I include the production of non-agricultural raw material, manufacturing and transportation generally—that is, chiefly, those agencies concerned with paid labor. That is, in the main, a division of town and country. Practically all of the worst of our economic and social ills today center in the towns.

Now any casual survey of the world's economic situation at this moment will display two extraordinary—perhaps not extraordinary but two very pertinent facts. One of them is the depth to which production has dropped in industry, and the other is the volume to which production has increased in agriculture. The industrial classes all over the world have slackened effort; the agricultural classes all over the world have redoubled their efforts.

I wish, first, to deal a moment with the industrial situation. I take it that there is one thesis on which every business man and every economist, no matter what the bent of his mind, can agree—and that is, "That the very foundation of the maintenance and the improvement in the standard of living lies in securing the maximum productivity of the human being."

It follows from this that the maximum productivity cannot be obtained without the elimination of waste. It further follows that the application of such a proposi-

tion must stand several tests, and the principal one of these is that the maximum production can only be obtained under conditions that protect and stimulate the well-being of the individual producer.

Now, the causes of the present decreased productivity are to some extent the same throughout the world. There was a great mobilization of industry during the war on new lines of endeavor. There was a new distribution of commodities, and a distorted purpose in commerce. With the cessation of hostilities a large part of the industries of the world have had to be redirected back to peace work, and there has, of necessity, been some disruption in production.

The struggle for political rearrangements during the armistice has had a stifling effect on production. We have to bear in mind that five old empires have been split into twenty different states. The old empires were, each of them, economic units, and we thus have them broken into twenty economic fragments, and the result could not be other than a decrease in production.

There has been a physical exhaustion of a large section of the population, particularly in Europe. Privation from war, and under-feeding, all have contributed to create a great reflex against renewed exertion.

To a minor degree, considering the whole, there has been a destruction of equipment and tools. There has been some loss of organization and skill, due to diversion to war.

The delay in peace has, particularly in Europe, de-

layed the import of raw materials, for until peace is made credits cannot be arranged and factories cannot be reopened. Europe has exhausted practically the whole of its movable securities. It must borrow working capital with which to secure raw material and that working capital cannot be available until we have peace.

There is also a large factor in the social ferment that arises primarily out of the necessity of economic readjustment of wages in an endeavor to continually meet the rise in prices that are themselves the result of the vicious circle of inflation in money and credits during the war.

There is a further note in all this turmoil and tumult, and that is the insistent demand of labor for higher standards of living and a voice in the administration of its own effort. Unfortunately, these demands have, in many places, become impregnated with notions of socialism, this being believed by many millions of people as the panacea for all ills; and in some countries also, labor has become infected with the notion that it increases the total sum of labor as it limits the effort of the individual. Thus we have the demand for a six-hour day.

From all these causes, accumulating in different countries in different intensity, there is one essential fact, and that is that the industrial productivity of the world has reached so low an ebb that nothing but political and moral economic chaos, finally interpreting itself into a loss of life on a scale hitherto undreamed of, is upon us, unless constructive measures can be set up by which the

world, and more particularly Europe, is to return to work.

Some items in the present situation illustrate the extent to which productivity has fallen. An inquiry which I carried out in the month of August showed that there were fifteen million families receiving unemployment allowances in Europe—practically a population of seventy-five millions being carried on charity by governments, and being paid almost wholly by the sheer issue of paper currency.

The coal consumption of Europe had, on the first of August, fallen to a rate of 450,000,000 tons per annum, as compared with 690,000,000 tons pre-war, and 600,000,000 tons at the day of the armistice.

Taking Europe as a whole, of the population of about 450,000,000, something less than 350,000,000 can be supported on their own soil. Approximately one hundred millions of these people must live by the manufacture and marketing of products of their labor to other countries, in exchange for their food. It is a sinister fact that the people today being supported on unemployment allowances practically represent the surplus population of Europe. Before the war these whole masses of population produced from year to year only a small margin of commodities over and above their necessary consumption and the amounts they required for their exchange abroad for vital necessities. It is true they managed to support armies and navies, that they had a class of non-producers, and that they did gain slightly in in-

ternal improvements and investments abroad; but all these surpluses were obtained at the cost of a dangerously low standard of living.

More particularly was this true in the case of Great Britain where the largest volume of British production was undoubtedly secured at a fearful cost in the standard of living and the ultimate physical demoralization of an industrial population.

Now, in pre-war days, Europe had the advantage of the enormous stimulus of individualism. It had also the advantage of great economic discipline; and during the war the patriotic impulse to production and a reduction in consumption carried them on in spite of the diversion of men to war and munitions. But during the war great promises were held out in every country of Europe as to economic betterment with peace. With the cessation of hostilities the patriotic stimulus of war towards production was lost, and an insistent demand for economic change came from every quarter, with the armistice.

Now this social ferment is the most difficult problem in front of the whole world. It grows fundamentally out of a yearning for higher standards of living, demand for economic change in the status of labor, and in Europe for a greater equality of opportunity, or, to phrase it in another way, for a better division of the products of industry. In very large areas this has resulted in actual revolution and the imposition of radical ideas; and in other areas it has taken a milder form of demands for nationalization of certain industries. The economic im-

pulse of the French Revolution of a century and a half ago was a better division of the land. The economic impulse of these revolutions that we have had in the last two years is for a better division of the products of industry.

It is to be noted that these two movements are not from the agricultural classes; that they are town phenomena.

Now, all this ferment, whether it is in the form of demands for an equalization of wage with the cost of living, or whether it is in the form of restriction of individual output in an endeavor to increase the total volume of employment, or whether it is in the nature of socialization with the hallucination that men will work for altruism alone, or whether it takes the form of strikes or lockouts, or whether it takes any other form—all have one concrete result, and that is that we have a decreased productivity that has placed all Europe in jeopardy and that has come to invade this country.

These phenomena until recently had not penetrated the United States to any great degree, but no man can say, in the face of the enormous strikes that we are confronted with, that we are at all free from the Europeanization of the United States. There will be no use of tears over rising prices if our productivity maintains its present level, for rising prices are simply the visualization of insufficient production. When production breaks down prices must rise, and the richer are supplied and the poorer do without. Right here is the origin of class dis-

tinctions and the origin of violence. We want no classes in this country; we wish to maintain the equality of opportunity which we now have and the opportunity for every man, by exertion, to participate in all that we possess.

This, to my mind, is the primary and pressing problem of this moment, and the first step in its solution is to get peace. Peace, is, however, but a single step, and the fundamental fact is that the world is producing less industrial material than it requires to maintain its total population. Therefore, the business of the whole world—the business of every thinking man—is, as soon as it can dispose of this incidental question of peace, to find some solution of the much greater problem that we are confronted with. There is no royal road to its solution. There is no bright intellectual formula that will end all this kind of trouble. The beautiful formulæ of Bolshevism and Socialism have already wrecked themselves on the rock of production. For such reduced production they have caused the death and misery of millions of people. They have been abandoned even by their leaders. We need some definite substitute, some plan for solving this problem. The solution must be found by Americans in the practical American way, based upon American ideas, on American philosophy of life. And, further, it must be founded upon our own national instincts, and in harmony with our own national institutions. It cannot be founded by creating class feeling of workers and capitalists. Unless we can find such a plan

we shall be subjected to the disintegrating theories of Europe. We have gone far apart from Europe; we lead Europe in every social and moral aspect by fifty years. It is for us to lead in this problem, also.

It appears to me that any solution of this problem must go deeper than questions of strikes, lockouts or arbitration, for these presuppose a conflict of interest. We have got to go sooner or later to the root of this difficulty. There is no solution short of community of interest. We must begin by creating, somehow and somewhere, a solidarity of interest in every section of the people conducting our industrial machine. The worker, the administrator and the employer are absolutely interdependent on one another in this task of securing the maximum production and a better division of its results. It is hopeless to secure a solution if we are to set these people up as different classes fighting with each other. Maximum production must be founded on the maximum exertion of every individual within his physical ability, and upon the reduction of waste, not only individual but national. Unless we are going to secure this maximum production through the combined effort and intelligence of our entire economic machine, we will have destroyed the very foundations upon which we build the higher activities of life.

One of the most important actions taken by our President was the summoning of the Industrial Conference at Washington. If that conference can evolve some method by which we can obtain industrial peace, it will

have done more for the world in the next two years than the League of Nations can possibly do during the same time.

In the last seventy-five years industry has developed into large units. We have in a great degree lost the interest of the individual worker in the produce of his hands. In the specialization of industry we have dulled the worker by intense production without giving him any other interest, and we have widened the space between the employer and the employee. We have destroyed all the old intimacy between the employer and the employed, which bore within it mutual responsibility. So we must search deeper for a solution than lies in mere superficial agreement, if we are to find an end of this constant struggle. We must find in the relationship of employer and employee some common bridge of actual, individual, self-interest in the maintenance of production and the elimination of waste. We must have a contribution on both sides of their full energy, their full intelligence, and their full responsibility. To do this, we must secure a better basis of distribution of the results from labor, from skill and intelligence, if we are going to secure this larger interest in production.

Now the human race has increased its standard of productivity and therefore its standard of living, through a thousand years of growth of an extremely intricate organization of production and distribution. This organization contains within itself a great stimulation to skill, to invention and to industry. We cannot

maintain the production which we now have by the destruction or sudden disturbance of this delicate organization. The margins upon which the human race is living today are too small to warrant a drop of only ten per cent. in our productivity. The maximum production does not lie in the abandonment of the individual reward for effort and intelligence. It lies in a proper stimulation of these qualities of skill and effort, and their stimulation by the only stimulant that is constant in the human character, and that is, his own self-interest.

I mentioned the question of waste, and I do not mean alone the waste of strikes and of unemployment and the lack of interest in labor, but also national waste. National waste contributes to decrease the efficiency of the entire industrial machine and thus to decrease the available commodities for distribution. We have in this country a government, the administrative organs of which we set up before we had gained our complex economic organization, and we further distorted that government by the measures we were compelled to take in war time. There lies a wide field for adjustment in our present processes, both as to taxes, to expenditure, to our railways and a control of dominant enterprises, and to the actual administration of the government generally.

I have no panacea for any of these problems. I believe that these are the lines of advance. This requires that the constructive devotion of the officials of this country and the intelligence of the entire people should be

directed to these issues, instead of to issues that are now exhausted and are practically accepted.

Agriculture has had but a minor penetration of these difficulties that permeate the town populations. It was never so prosperous nor in so high a state of productivity as today. Even in Europe, there is not an acre for which seed could be obtained, or agricultural implements found, that has not been planted. The food situation in the world today is therefore not a question of supply. There are ample supplies of the most essential commodities to feed the whole of civilization until the next harvest. The problems of this division of life are, therefore, not the reflex of the currents that dominate industrialism. There is, however, in this calling a very large and difficult problem. It arises from the fact that the season of the flood delivery of the result of our American farmers' labor is now upon us. We shall have a large surplus over our own consumption—probably between fifteen and twenty million tons of food that we wish to market abroad.

Europe is our only customer for eighty to ninety per cent. of this produce. The belligerent countries have, to all practical purposes, exhausted their transferable securities. Their production of industrial commodities to exchange for this food cannot begin until they have had raw materials. They cannot obtain raw materials until they have had credits, and they cannot get credits until we have peace. Therefore, we are holding Europe idle today, we are preventing ourselves from finding a

market for our major produce, and we are projecting on our agricultural community a danger that we must yet take into account. Already we see the preliminary signs of these events. The drop of thirty-five per cent. in the price of hogs, with the fall in corn and oats, is the premonitory symptom, and the fall of this one brick in a row will yet react in a hundred other American products. Some fall of price of foodstuffs in the United States is essential, in justice to the consumer. No one will deny that. And yet prices can fall to a point that will do injustice to the producer as well, and will curtail our production for the next season. This particular problem is also complicated by the fact that many countries of Europe are again today consolidating their buying agencies in the hands of groups of governments in order to purchase our food supply through one hand. These consolidated agencies possess a power over prices in the United States that requires careful safeguarding from our side.

It is possible that if we take no measures to meet these problems of the agricultural industry, we may have economic reactions that will affect the entire commercial community of the United States. It is to be borne in mind that the wealth of this country is sixty per cent. agricultural; that our agricultural community is also the absolute sheet-anchor of stability in our social institutions and while we pray for lower prices we must have an equal regard for justice to the American farmer, not only in his interest but in the interest of the entire community.

While on agricultural subjects, a word for the consumer may not be amiss. We hear a great deal of justifiable complaint of speculation in the primary necessities of life. There have been many men who have taken unjustifiable advantage of the terrible economic disruption of the last twelve months. Some of this speculation has been of an absolutely vicious order. By viciousness, I mean men who give no service in distribution, who have bought food, the prime necessities of life, with a view to lifting their price out of the community. But the great rise in prices this last seven months since the demobilization of the Food Administration has been due to other causes entirely. These causes are world-wide, and they lie generally in the anticipation that was held by the whole food producing and food marketing world, that with the opening of two hundred million customers in Central Europe, there would be a demand of such dimensions as to make a world shortage. Therefore, there was a large amount of buying, a large amount of withholding from the market, of what one may term a protective order, not with a view of speculating against the community, but of safeguarding supplies. Even governments have been engaged in this operation. To put it in another way, many people have been increasing their stocks out of a fear that there would be a scarcity before the year was over. Thus we are able to witness that before the beginning of the present harvest we had larger stocks of food of many kinds in our public warehouses than we have had at any time during the past

five years. Two conclusions can be drawn from this: one is that we did not over-export foodstuffs from the United States during the past year; the other is of more importance, and that is that with these accumulated stocks, and probably the largest harvest that we have ever had, we have ample supplies to carry over the next year.

The demands from Central Europe will never amount to the creation of such a shortage as has been anticipated by the food trades, and the public may yet score off the speculator. While Europe needs and will import most of our surplus during the year, if they can find credits with which to buy it, it has not the resources to import one atom more than is absolutely necessary to preserve life, and there is no justification today for the anticipation of any over-demand upon the United States during the next twelve months. There is, however, ample room for anxiety that in the next five months of our maximum production, through the delays in peace and in the setting up of credits, Europe will not be in a position to purchase her customary food supplies during the time of our high production, and that it is now time for us to display some interest in what will happen to our agricultural producers when our warehouses become overcharged.

There is one general fault with food prices in the United States, and that is the expensiveness of our distribution system. The margins between the farmer and the consumer are larger in this country than in any other country in the world, even eliminating the whole question of speculation. The whole distribution system needs

a careful analysis and study and some form of deliberate remedy. Such remedies do not, however, take the form of governmental interference except against monopoly and vicious speculation. It would be amiss if I did not mention that there are some articles in the world today of which there is an actual world shortage. On some textiles, clothing material and a few food stuffs, such as sugar and coffee, and a few items of that character, the price level is a level based on shortage. Nothing will permanently correct such price levels but an increase in production or a decrease in consumption, and a continued decrease in production in the manufacturing community can only tend to lift the whole list of these prices higher.

Now, these are a few of the problems that demand immediate consideration in the nation. There are others that I could impose on you for some hours.

But we do need the deck cleared of this peace question and of politics, while we bring to bear the great intelligence of this country on its solution. These things mean more to the welfare of our people and to the world than even the League, great as I believe its aspirations and its purposes are. We have spent two years in war, and we have spent a year making peace, and now let us have a year in economics, in order that we may not find ourselves in a worse plight than we were before we entered upon it. (Applause.)

Mr. Whitton: I propose three cheers for Mr. Herbert Hoover. (*Cheers*).

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